

VILLAGE OF LEXINGTON, MICHIGAN

ANNUAL FINANCIAL STATEMENTS
And Supplementary Information

FOR THE YEAR ENDED JUNE 30, 2004

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF LEXINGTON	County SANILAC
Audit Date 6/30/04	Opinion Date 7/30/04	Date Accountant Report Submitted to State: 11/16/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) STEWART, BEAUVAIS & WHIPPLE PC			
Street Address 1979 HOLLAND AVENUE	City PORT HURON	State MI	ZIP 48060
Accountant Signature <i>Stewart, Beauvais & Whipple</i>		Date	

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the President and Members
of the Village Council
Village of Lexington, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lexington, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Library Fund, which represents 5.7% of the assets and 16.1% of the revenues of the nonmajor governmental funds and 3.1% of the assets and 5.2% of the revenues of the governmental activities. These financial statements were audited by other auditors whose report was furnished to us, and our opinion insofar as it relates the amounts included for the Library Fund, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Village of Lexington, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the basic financial statements, the Village and its component units adopted Governmental Accounting Statement Board Statement No. 34 and related statements as of and for the year ended June 30, 2004. This resulted in a change in the Village's basic financial statement format and content.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 30, 2004, on our consideration of Village of Lexington's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10, and schedules of budgetary comparisons on pages 41 through 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Lexington, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stewart, Beausair & Whipple
Certified Public Accountants

July 30, 2004

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Village of Lexington's annual financial report presents the Village's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the Village's financial statements which follows this section. Since this is the first year of implementation of GASB No. 34 comparative data to the prior year is not available in all instances. It is included in this report when available and appropriate. In subsequent years, comparative data with the prior year will be available.

FINANCIAL HIGHLIGHTS

- The net cost of all the Village's governmental programs (all funds except for water, sewer, and Mobile Home Park) was \$968,001, with no new programs added this year.
- In the Village's combined business-type activities (sewer, water and MHP) revenues were \$1,327,352 (excluding investment income) and expenses of \$1,065,043 resulting in positive operating income of \$262,309. The increase in net assets after contributions and transfers was \$288,672.
- The Village of Lexington's total debt decreased by \$195,026 or 3.6% during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts – Management Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information (RSI), and an optional section that presents combining statements for non-major governmental funds. The basic financial statements include two kinds of statements that present different views of the Village: Government-wide Financial Statements and Fund Financial Statements.

Government-wide Financial Statements

The government-wide statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies and provide long and short-term information. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the Village's net assets and how they have changed. Net assets defined as the difference between assets and liabilities, is one way to measure the Village's financial health or position.

The government-wide financial statements of the Village are divided into three categories:

- Governmental activities (all activities except sewer, water, and MHP) – most of the Village's basic services are included here, such as public safety, public works, parks/recreation and general administration. Property taxes, fees, and state funds finance most of these activities.
- Business-type activities – activities where the Village charges fees to customers to help it cover the cost of services it provides; included here is the sewer, water and MHP Funds.
- Component units – although separate, the Downtown Development Authority and Library are important because the Village is financially accountable for them. An independent audit is done for the Library and can be obtained upon request.

Fund Financial Statements

The fund financial statements provide more detailed information about the Village's most significant funds; not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Village Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Village has two kinds of funds:

- Governmental funds - Most of the Village's basic services are reported in governmental funds (all funds except water, sewer, and MHP), which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Village's general government operations and the basic services it provides. We describe the relationship (or differences) between governmental activities and governmental funds in reconciliation schedules (Statement of Net Assets and Statement of Activities) on pages 15 and 17.
- Proprietary funds - Services for which the Village charges customers a fee (water, sewer, MHP) are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. The Village's *enterprise* funds (a type of proprietary fund) are the same as the business-type activities, but provide more detail and information.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

The Village's combined net assets are \$6,695,000 million. Our analysis below focuses on the net assets (Table 1) of the Village's governmental and business-type activities. Comparison data from the prior year is not available for each line item as this is the first year of implementation of the new Governmental Accounting Standard Boards Statement No. 34. In future years a comparative analysis of government wide data will be presented in full.

Table 1

Net Assets of Governmental and Business-type Activities
(In thousands)

	Governmental Activities		Business-type Activities		Total Government	
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
Current and other assets	N/A	\$1,224	N/A	\$285	N/A	\$1,509
Capital Assets	N/A	434	N/A	10,115	N/A	10,549
Total Assets	N/A	1,658	N/A	10,400	N/A	12,058
Long-term debt Outstanding	N/A	232	N/A	4,961	N/A	5,193
Other liabilities	N/A	76	N/A	94	N/A	170
Total Liabilities	N/A	308	N/A	5,055	N/A	5,363
Net Assets:						
Invested in capital Assets, net of debt	N/A	203	N/A	5,182	N/A	5,385
Restricted	N/A	13	N/A	25	N/A	38
Unrestricted	N/A	1,134	N/A	138	N/A	1,272
Total Net Assets		\$1,350		\$5,345		\$6,695

Governmental Activities

Governmental activities for the Village include four major activities: General Government, Public Safety, Public Works, and Parks/Recreation. General Government includes the Legislative, Administrative, and Clerk departments. Public Safety includes the Police and Fire departments. Public Works includes primarily the Department of Public Works and building and maintenance of the major and local roads. The Village Parks and Recreation department comprise the Parks/Recreation activity.

The largest revenue for governmental activities is the general operating property tax. The taxable value of property in the Village was \$40,012,654 in 2003. In 2004, it was \$40,706,224 for an increased growth of \$693,570 or 1.7%. This resulted in a net general government collections of \$7,402 (\$299,399 – 291,997). Although the Village experienced limited growth this year, Proposal A implementing legislation combined with Headlee has substantially restricted realization of growth since 1995.

State shared revenue decreased from \$91,351 in 2003 to \$85,500 in 2004 or 6.4%. The State of Michigan collects sales tax and redistributes a portion of these collections to local jurisdictions. State Revenue Sharing is a major source of revenue for the Village. It is somewhat volatile since it fluctuates with the economy and the Legislature's appropriation.

To assist in maintenance and repair of the road system, the Village receives Michigan Transportation Fund money that accounted for \$72,864 listed under program revenues. This money varies from year to year based on state revenues at the gasoline pumps.

Table 2 below presents the cost of each of the Village programs; general government, public safety, public works, and parks/recreation, and each program's net cost (after reimbursements). The net cost shows the financial burden that was placed on the Village's general fund (primary from property tax and State shared revenue) by each of these functions.

Table 2
Governmental Activities

	<u>Total cost of services</u>	<u>Net cost of services</u>
General Government	158,380	115,668
Public Safety	361,061	287,637
Public Works	149,353	(7,664)
Parks/Recreation	61,852	35,445
All others	132,068	132,068
Interest	<u>10,505</u>	<u>10,505</u>
Totals	<u>\$ 873,219</u>	<u>\$ 573,659</u>

Business-type Activities

The Village has three business-type activities: water, sewer and MHP. Revenues of these activities (see Table 3) increased by \$31,513 or 2.4%, and expenses increased by 69,849 or 6.6%. The Village experienced a net asset increase of \$288,672.

Table 3
Changes in Net Assets of Business-type Activities

	<u>2003</u>	<u>2004</u>
<u>Revenues:</u>		
Charges for Services	\$1,287,376	\$1,310,943
Other	<u>8,463</u>	<u>16,409</u>
Total Revenues	<u>\$1,295,839</u>	<u>1,327,352</u>
<u>Expenses:</u>		
Water, Sewer, MHP	<u>995,194</u>	<u>1,065,043</u>
Operating Income	300,645	262,309
Non-operating revenue and Capital Cont.	859,813	127,035
Transfers	<u>-</u>	<u>(100,672)</u>
Increase in Net Assets	<u>\$1,160,458</u>	<u>\$ 288,672</u>

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

As the Village completed the year, its general governmental fund (as presented in the balance sheet on page 14 reported a combined fund balance of \$238,815. With the implementation of the GASB No. 34, the total governmental funds do not include the same funds as the audit report for last year. The major changes are the inclusion of Cemetery fund and the Building Authority fund in the governmental funds.

General Fund Budgetary Highlights

There were minor amendments by the Village Council to the original budget passed in June 2003. Even though the budget is passed by the Village Council prior to the beginning of the fiscal year, all expenditures are reviewed and approved as they occur throughout the year. During the budget process the Council discusses major projects proposed for the upcoming year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the Village had a book value of \$13,664,829 invested in a broad range of capital assets, including police, fire and DPW equipment, buildings, park facilities, roads, and water and sewer lines. Refer to Table 4 below for a schedule showing the Capital Assets at year-end for both the year ending 6-30-03 and 6-30-04 for both the Governmental and the Business-type activities. There is also a total column for the Total Primary Government for each year.

Table 4
Capital Assets at Year-end
(Net of Depreciation)

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
Land and land improvements	\$ -	\$ 28,006	\$ 2,646,071	\$ 2,646,071	\$ 2,646,071	\$ 2,674,077
Construction-in-progress	-	-	-	13,980	-	13,980
Buildings & Improvements	-	346,026	44,889	49,889	44,889	395,915
Machinery & Equipment	-	57,452	132,806	150,397	132,806	207,849
Vehicles	-	442,415	-	-	-	442,415
Improvements other than Buildings	-	114,048	-	-	-	114,048
Water & Sewer systems	-	-	9,419,651	9,816,545	9,419,651	9,816,545
Totals	\$ -	\$ 987,947	\$12,243,417	\$12,676,882	\$12,243,417	\$13,664,829

This year's major additions included:

New sidewalks	\$ 23,772
Water Plant addition	387,041
2 Vehicles- Police (car) and DPW (pickup)	43,568
2 tractors – MHP (1) and DPW (1)	33,250
Fire Department - Jaws of Life	14,805

The Village's 2005 Capital Budget calls for it to spend \$120,000 for capital projects, including a DPW dump truck, Water Department vehicle, new sidewalks, and an outdoor multi-purpose sport facility.

Debt

At year-end, the Village had \$5,129,713 in bonds and notes outstanding versus \$5,316,839 last year; a decrease of 3.52 percent as shown in Table 5.

Table 5
Outstanding Debt at Year-end

	Governmental		Business-type		Totals	
	<u>Activities</u>		<u>Activities</u>			
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
General Obligation Debt (backed by the Village)	212,419	197,000	2,127,409	831,409	2,339,828	1,028,409
Revenue Debt (backed by specific fee revenues)	-	-	2,977,011	4,101,304	2,977,011	4,101,304
Totals	<u>212,419</u>	<u>197,000</u>	<u>5,104,420</u>	<u>4,932,713</u>	<u>5,316,839</u>	<u>5,129,713</u>

More detailed information about the Village's long-term liabilities is presented in Note 8 of Notes to Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Village of Lexington, population 1,104 (2000 census), is primarily a resort community located in Sanilac County, Michigan. The Village's proximity to the Detroit metropolitan area and several major roadways, including Interstate Highway 94, has helped spur recent residential development. The reported median income level for Lexington is currently \$30,792 (2000 census). New residential and commercial property development is expected over the next few years that will be beneficial to the community as a whole.

In FY 2004, the general fund posted a surplus of \$32,237. The current unreserved fund balance for the general fund is \$188,408. The Village which relies heavily on property taxes (44.7% of total governmental fund revenues) operated at the state-authorized tax rate limit after application of Proposal A and Headlee.

The Village has also adopted a balanced budget for FY 2005. The Village's elected and appointed officials considered many factors when setting the 2005 budget including tax rates, and fees that will be charged for the Village's activities. The expenditures budgeted for the 2005 general fund decreased \$78,873 from FY 2004. The revenue from Property taxes was budgeted at \$299,972 or about the same as last year's collection. State Revenue Sharing was budgeted at \$83,687. However, the Legislature may cut the appropriation 17% from FY 2004 levels. The Village has added no new major programs to the FY 2005 budget and will apply for grants whenever possible to assist in the cost of any major projects.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact David A. Thayer, Village Manager, by mail at 7227 Huron Avenue, Suite 100, Lexington, MI 48450, phone 810-359-8631, by fax 810-359-5622, or email villagelexington@aol.com

BASIC FINANCIAL STATEMENTS

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF NET ASSETS JUNE 30, 2004

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business Type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$ 918,879	\$ 310,562	\$ 1,229,441	\$ 136,338
Investments	18,800	-	18,800	-
Receivables (net of allowance)	51,861	106,909	158,770	-
Prepaid expenditures	38,881	57,181	96,062	-
Internal balances	195,287	(195,287)	-	-
Inventory	-	5,816	5,816	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	28,006	-	28,006	-
Assets being depreciated	406,387	10,114,558	10,520,945	-
Total Assets	<u>1,658,101</u>	<u>10,399,739</u>	<u>12,057,840</u>	<u>136,338</u>
LIABILITIES:				
Payables and accrued liabilities	71,818	17,142	88,960	9
Accrued interest	1,282	39,973	41,255	-
Advances and deposits	-	36,578	36,578	-
Due to other governmental units -				
Local	2,912	-	2,912	-
Non-current liabilities				
Due within one year	15,400	230,537	245,937	-
Due in more than one year	216,171	4,731,158	4,947,329	-
Total Liabilities	<u>307,583</u>	<u>5,055,388</u>	<u>5,362,971</u>	<u>9</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	202,822	5,181,845	5,384,667	-
Restricted	12,565	25,194	37,759	-
Unrestricted	<u>1,135,131</u>	<u>137,312</u>	<u>1,272,443</u>	<u>136,329</u>
Total Net Assets	<u>\$ 1,350,518</u>	<u>\$ 5,344,351</u>	<u>\$ 6,694,869</u>	<u>\$ 136,329</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	158,380	42,712	-	-
Public Safety	361,061	71,865	1,559	-
Public Works	149,353	84,153	72,864	-
Recreation and Culture	61,852	25,602	805	-
Other Activities	132,068	-	-	-
Interest on Long Term Debt	10,505	-	-	-
Total governmental activities	<u>873,219</u>	<u>224,332</u>	<u>75,228</u>	<u>-</u>
Business type activities				
Sewer	206,559	204,963	-	-
Water	556,665	437,864	-	387,041
Mobile Home Park	301,819	705,969	-	-
Interest on Long Term Debt	198,838	-	-	-
Total business type activities	<u>1,263,881</u>	<u>1,348,796</u>	<u>-</u>	<u>387,041</u>
Total Primary Government	<u>2,137,100</u>	<u>1,573,128</u>	<u>75,228</u>	<u>387,041</u>
Component Units				
Downtown Development Authority	<u>24,127</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Component Units	<u>24,127</u>	<u>-</u>	<u>-</u>	<u>-</u>
General revenues:				
Property taxes				
Grants and contribution not -				
restricted to specific programs				
Unrestricted investment income				
Transfers				
Transfers-land use fee				
Total general revenues and transfers				
Change in net assets				
Net assets at beginning of year				
Net assets at end of year				

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

<u>Governmental Activities</u>	<u>Primary Government</u>		<u>Component Unit (DDA)</u>
	<u>Business Type Activities</u>	<u>Total</u>	
(115,668)	-	(115,668)	-
(287,637)	-	(287,637)	-
7,664	-	7,664	-
(35,445)	-	(35,445)	-
(132,068)	-	(132,068)	-
(10,505)	-	(10,505)	-
<u>(573,659)</u>	<u>-</u>	<u>(573,659)</u>	<u>-</u>
-	(1,596)	(1,596)	-
-	268,240	268,240	-
-	404,150	404,150	-
<u>-</u>	<u>(198,838)</u>	<u>(198,838)</u>	<u>-</u>
<u>-</u>	<u>471,956</u>	<u>471,956</u>	<u>-</u>
<u>(573,659)</u>	<u>471,956</u>	<u>(101,703)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,127)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,127)</u>
543,091	14,485	557,576	70,866
89,553	-	89,553	-
11,629	2,903	14,532	1,056
102,622	(100,672)	1,950	(1,950)
100,000	(100,000)	-	-
<u>846,895</u>	<u>(183,284)</u>	<u>663,611</u>	<u>69,972</u>
273,236	288,672	561,908	45,845
<u>1,077,282</u>	<u>5,055,679</u>	<u>6,132,961</u>	<u>90,484</u>
<u>\$ 1,350,518</u>	<u>\$ 5,344,351</u>	<u>\$ 6,694,869</u>	<u>\$ 136,329</u>

VILLAGE OF LEXINGTON, MICHIGAN

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Assets:			
Cash and cash equivalents	\$ 111,885	\$ 806,994	\$ 918,879
Investments	-	18,800	18,800
Receivables -			
Utilities	1,330	-	1,330
Unbilled utilities	4,449	-	4,449
Accounts	17,296	75	17,371
Special assessments	-	1,809	1,809
Due from other governmental units -			
State	13,464	12,376	25,840
Local	1,062	-	1,062
Due from other funds	118,287	77,959	196,246
Prepaid expenditures	37,842	1,039	38,881
	<u>305,615</u>	<u>919,052</u>	<u>1,224,667</u>
Total Assets	<u>\$ 305,615</u>	<u>\$ 919,052</u>	<u>\$ 1,224,667</u>
Liabilities:			
Accounts payable	\$ 52,022	\$ 5,703	\$ 57,725
Accrued liabilities	11,866	2,227	14,093
Due to other governmental units -			
Local	2,912	-	2,912
Due to other funds	-	959	959
	<u>66,800</u>	<u>8,889</u>	<u>75,689</u>
Total Liabilities	<u>66,800</u>	<u>8,889</u>	<u>75,689</u>
Fund Balances:			
Reserved -	50,407	1,039	51,446
Unreserved -			
Undesignated -			
General Fund	188,408	-	188,408
Special Revenue Funds	-	909,124	909,124
Total Equity	<u>238,815</u>	<u>910,163</u>	<u>1,148,978</u>
Total Liabilities and Fund Equity	<u>\$ 305,615</u>	<u>\$ 919,052</u>	<u>\$ 1,224,667</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LEXINGTON, MICHIGAN

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
JUNE 30, 2004

Fund Balances - total governmental funds		\$	1,148,978
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets			987,947
Accumulated depreciation		(553,554)
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Notes payable	(197,000)	
Accrued compensated absence	(34,571)	
Accrued interest	(1,282)	(232,853)
Net Assets of governmental activities		\$	<u>1,350,518</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 299,399	\$ 243,692	\$ 543,091
Intergovernmental -			
State	90,703	76,917	167,620
Charges for services	164,221	18,342	182,563
Fines and forfeits	1,989	21,586	23,575
Interest and rent	2,539	9,090	11,629
Special assessment	-	-	-
Other	111,264	4,091	115,355
Total Revenues	<u>670,115</u>	<u>373,718</u>	<u>1,043,833</u>
Expenditures:			
Current -			
General Government	110,512	44,231	154,743
Public Safety	334,475	35,745	370,220
Public Works	27,650	197,082	224,732
Recreation and Cultural	9,159	51,115	60,274
Other	132,068	-	132,068
Debt Service			
Principal	15,419	-	15,419
Interest	10,545	-	10,545
Total Expenditures	<u>639,828</u>	<u>328,173</u>	<u>968,001</u>
Excess of revenues over (under) expenditures	<u>30,287</u>	<u>45,545</u>	<u>75,832</u>
Other Financing Sources (Uses):			
Transfers in	-	113,057	113,057
Transfers out	-	(12,385)	(12,385)
Transfers from component unit	1,950	-	1,950
Total Other Financing Sources (Uses)	<u>1,950</u>	<u>100,672</u>	<u>102,622</u>
Excess of revenues and other sources over expenditures and other uses	<u>32,237</u>	<u>146,217</u>	<u>178,454</u>
Fund Balances at beginning of year	<u>206,578</u>	<u>763,946</u>	<u>970,524</u>
Fund Balances at end of year	<u>\$ 238,815</u>	<u>\$ 910,163</u>	<u>\$ 1,148,978</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LEXINGTON, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2004**

Net change in fund balances - total governmental funds		\$	178,454
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Capital outlay			126,911
Depreciation expense		(47,460)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.			
Principal payments on long term liabilities	15,419		
Decrease in accrued interest	40		
Increase in accrued compensated absences	(128)		15,331
Change in net assets of governmental activities		\$	<u>273,236</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2004

	Business Type Activities-Enterprise Funds			
	Sewer	Water	Mobile Home Park	Total
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 99,534	\$ 24,639	\$ 186,389	\$ 310,562
Accounts receivable	27,303	49,721	29,885	106,909
Inventories	1,015	4,801	-	5,816
Due from other funds	160,556	-	6,000	166,556
Prepaid expenses	362	54,090	2,729	57,181
Total Current Assets	<u>288,770</u>	<u>133,251</u>	<u>225,003</u>	<u>647,024</u>
Property, Plant and Equipment:				
Property, plant and equipment	1,374,990	8,620,016	2,681,876	12,676,882
Less - accumulated depreciation	(659,217)	(1,422,061)	(481,046)	(2,562,324)
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>715,773</u>	<u>7,197,955</u>	<u>2,200,830</u>	<u>10,114,558</u>
Total Assets	<u>1,004,543</u>	<u>7,331,206</u>	<u>2,425,833</u>	<u>10,761,582</u>
LIABILITIES:				
Current Liabilities:				
Accounts payable	1,919	5,141	4,627	11,687
Accrued expenses	-	4,098	1,357	5,455
Accrued interest	3,294	17,447	19,232	39,973
Notes payable (current portion)	18,199	41,987	60,351	120,537
Bonds payable (current portion)	-	60,000	50,000	110,000
Due to other funds	-	361,843	-	361,843
Deposits payable	-	750	35,828	36,578
Total Current Liabilities	<u>23,412</u>	<u>491,266</u>	<u>171,395</u>	<u>686,073</u>
Long-Term Liabilities (less current portions):				
Accrued vacation and sick pay	-	22,811	6,171	28,982
Bonds payable (net of current portion)	-	1,735,000	665,000	2,400,000
Notes payable (net of current portion)	436,769	779,097	1,086,310	2,302,176
Total Long-Term Liabilities	<u>436,769</u>	<u>2,536,908</u>	<u>1,757,481</u>	<u>4,731,158</u>
Total Liabilities	<u>460,181</u>	<u>3,028,174</u>	<u>1,928,876</u>	<u>5,417,231</u>
NET ASSETS:				
Investment in capital assets, net	260,805	4,581,871	339,169	5,181,845
Restricted	6,472	18,722	-	25,194
Unrestricted -				
Undesignated	<u>277,085</u>	<u>(297,561)</u>	<u>157,788</u>	<u>137,312</u>
Total Net Assets	<u>\$ 544,362</u>	<u>\$ 4,303,032</u>	<u>\$ 496,957</u>	<u>\$ 5,344,351</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2004

	Business Type Activities-Enterprise Funds			
	Sewer	Water	Mobile Home Park	Total
Operating Revenues:				
Charges for services	\$ 195,991	\$ 411,053	\$ 703,899	\$ 1,310,943
Other	-	14,339	2,070	16,409
Total Operating Revenues	<u>195,991</u>	<u>425,392</u>	<u>705,969</u>	<u>1,327,352</u>
Operating Expenses:				
Salaries	51,951	128,028	46,402	226,381
Fringe benefits	5,040	56,669	11,970	73,679
Administrative fees	24,524	45,520	62,207	132,251
Professional fees	51,084	1,489	10,587	63,160
Contracted services	1,564	7,387	12,138	21,089
Insurance	1,557	16,316	226	18,099
Repairs and maintenance	16	3,423	-	3,439
Equipment rental	12,846	6,933	70	19,849
Supplies	2,114	23,918	3,878	29,910
Utilities	19,118	31,332	59,148	109,598
Rubbish expenditures	-	-	20,037	20,037
Mobile home park taxes	-	-	6,120	6,120
Miscellaneous	2,368	10,306	1,498	14,172
Depreciation	34,377	225,344	67,538	327,259
Total Operating Expenses	<u>206,559</u>	<u>556,665</u>	<u>301,819</u>	<u>1,065,043</u>
Operating Income (Loss)	<u>(10,568)</u>	<u>(131,273)</u>	<u>404,150</u>	<u>262,309</u>
Non-Operating Revenues:				
Interest income	864	297	1,742	2,903
Interest expense	(22,608)	(75,315)	(100,915)	(198,838)
Tap-in fees	2,500	6,000	-	8,500
Meter charge	6,472	6,472	-	12,944
Land use fee	-	-	(100,000)	(100,000)
Property taxes	-	14,485	-	14,485
Total Non-Operating Revenues	<u>(12,772)</u>	<u>(48,061)</u>	<u>(199,173)</u>	<u>(260,006)</u>
Net Income (Loss) Before Contributions	<u>(23,340)</u>	<u>(179,334)</u>	<u>204,977</u>	<u>2,303</u>
Capital Contributions	-	387,041	-	387,041
Net Income (Loss) Before Transfers	<u>(23,340)</u>	<u>207,707</u>	<u>204,977</u>	<u>389,344</u>
Transfers Out:				
Transfers out	<u>(147)</u>	<u>-</u>	<u>(100,525)</u>	<u>(100,672)</u>
Net Income (Loss)	<u>(23,487)</u>	<u>207,707</u>	<u>104,452</u>	<u>288,672</u>
Net Assets at beginning of year	<u>567,849</u>	<u>4,095,325</u>	<u>392,505</u>	<u>5,055,679</u>
Net Assets end of year	<u>\$ 544,362</u>	<u>\$ 4,303,032</u>	<u>\$ 496,957</u>	<u>\$ 5,344,351</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2004

	Business Type Activities-Enterprise Funds			
	Sewer	Water	Mobil Home Park	Total
Cash Flows From Operating Activities:				
Cash receipts from customers	\$ 212,923	\$ 420,475	\$ 683,923	\$ 1,317,321
Cash payments to suppliers	(114,820)	(144,820)	(250,747)	(510,387)
Cash payments to employees	(56,991)	(191,640)	(57,972)	(306,603)
Net Cash Provided by Operating Activities	<u>41,112</u>	<u>84,015</u>	<u>375,204</u>	<u>500,331</u>
Cash Flows From Non-capital Financing Activities:				
Land use fee	-	-	(100,000)	(100,000)
Transfers from/to other funds	(147)	-	(100,525)	(100,672)
Net Cash Used from Non-Capital Financing Activities	<u>(147)</u>	<u>-</u>	<u>(200,525)</u>	<u>(200,672)</u>
Cash Flows From Capital and Related Financing Activities:				
Principle payments	(445,000)	(837,000)	(110,350)	(1,392,350)
Interest payments	(19,314)	(92,127)	(101,921)	(213,362)
Note proceeds	454,968	774,675	-	1,229,643
Property taxes	-	14,485	-	14,485
Tap-in fees	2,500	6,000	-	8,500
Meter charge	6,472	6,472	-	12,944
Acquisition and construction of capital assets	(23,833)	(3,116)	(19,475)	(46,424)
Net Cash Used by Capital and Related Financing Activities	<u>(24,207)</u>	<u>(130,611)</u>	<u>(231,746)</u>	<u>(386,564)</u>
Cash Flows From Investing Activities:				
Interest earned	864	297	1,742	2,903
Net Cash Provided by Investing Activities	<u>864</u>	<u>297</u>	<u>1,742</u>	<u>2,903</u>
Net Increase (Decrease) in Cash and Cash Equivalents for the year	17,622	(46,299)	(55,325)	(84,002)
Cash and Cash Equivalents at Beginning of Year	81,912	70,938	241,714	394,564
Cash and Cash Equivalents at End of Year	<u>\$ 99,534</u>	<u>\$ 24,639</u>	<u>\$ 186,389</u>	<u>\$ 310,562</u>
Reconciliation of Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss) for the year	\$ (10,568)	\$ (131,273)	\$ 404,150	\$ 262,309
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -				
Depreciation	34,377	225,344	67,538	327,259
Change in assets and liabilities:				
Receivable	(8,634)	(29,947)	(7,246)	(45,827)
Due from other funds	27,473	26,187	6,981	60,641
Prepays and deposits	1,076	25,800	(2,006)	24,870
Inventory	(1,015)	(4,801)	-	(5,816)
Accounts payable/accrued expenses	310	(8,406)	568	(7,528)
Due to other funds	-	(16,982)	(73,000)	(89,982)
Deposits	(1,907)	(1,907)	(21,781)	(25,595)
Net Cash Provided By Operating Activities	<u>\$ 41,112</u>	<u>\$ 84,015</u>	<u>\$ 375,204</u>	<u>\$ 500,331</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The Village of Lexington, Michigan, was incorporated as a General Law Village in 1855, under provisions of the constitution and general law of the State of Michigan, with its Charter provided by Act 3 of 1895. The Village is located in Sanilac County. The Village operates under an elected Village Council, which consists of the President and six Council members, with the daily activities operated by the Village Manager/ Clerk and Treasurer. The Village provides services to its more than 1104 residents in many areas including law enforcement, water, sewer, cemetery and parks and recreation.

These financial statements present the Village and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Village.

BLENDED COMPONENT UNIT -

MOORE PUBLIC LIBRARY - is a legally separate entity governed by a three member elected board. The primary function of the library is for the benefit of the citizens of the Village and has been included as a blended component unit. On January 1, 2004 the Village Library became a District Library, therefore activity subsequent to that date has not been reported.

DISCRETELY PRESENTED COMPONENT UNIT -

DOWNTOWN DEVELOPMENT AUTHORITY - The Authority is controlled by a nine member Council, who are appointed by the Village Council. The DDA is responsible for the creation of a development and financing plan for the Downtown district or a development area within the district to promote economic growth. The Authority must obtain Village Council approval of all development and financial plans. The annual operating budget and any modification also requires the approval of the Village Council.

COMPONENT UNIT FINANCIAL STATEMENTS - Complete financial statements of the Moore Public Library are audited separately and may be obtained from the administration office at the following location:

Moore Public Library
7239 Huron
Lexington, Michigan 48450

The Downtown Development Authority was included in the scope of the audit of the basic financial statements. Separate audited financial statements for this component unit were not issued.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

FISCAL YEAR ENDS - All of the Village Funds and Component Units operate and are reported on a June 30 year end with the exception of the Moore Public Library which is reported as of December 31, 2004.

JOINTLY GOVERNED ORGANIZATION -

VILLAGE OF LEXINGTON BUILDING AUTHORITY - The Authority was created in 1979 to facilitate the financing, construction and operation of a municipal building for the use of both the Village and the Township of Lexington. The Authority operates under a board of commissioners consisting of 3 members appointed by the Village Council. Financing of the Authority, to include debt retirement and operational expenses consists of the Village contributing 80% and the Township 20%. The transactions of the Building Authority are subject to a separate audit and are not included in this report.

B. Government-wide and fund financial statements -

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary governments financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are levied and due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. So agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers all revenues available if they are normally collected within 60 days after the year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes which are levied on July 1, and due on September 14, are recognized as revenue in the year due. Also only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

General Fund - is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Village reports the following major proprietary funds:

Sewer Fund - is used to account for the operations that provide sanitary sewer service to the Village residents.

Water Fund - is used to account for the operations that provide water to both Village residents, but also to the Lexington-Worth Townships Utility Authority.

Mobile Home Park Fund - is used to account for the operations of a mobile home park owned by the Village.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Additionally, the government reports the following fund type:

Special Revenue Funds - are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal on-going operations. The principal operating revenues of the Enterprise Funds are charges to customers for sale, rent and services. Operating expenses for Enterprise Funds include costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, the unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity -

Deposits and Investments -

The Village maintains a common checking account for its operation funds. Each participating fund reports its share separately.

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, savings, certificates of deposit with original maturities of three months or less from the date of acquisition and financial institution pooled funds. The financial institution pool funds have the general characteristics of demand deposit accounts in that the Village may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Receivables and Payables -

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible.

Inventories and Prepaid Items -

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Property Tax Calendar -

The Village's property tax is levied each July 1 on the taxable value of property located in the Village as of the preceding December as adjusted by the March and July Board of Reviews. Taxes are collected through September 14.

Capital Assets -

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the Village has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives.

<u>Primary Government -</u>	<u>Years</u>
Building/improvements	40
Utility Systems	40
Road Systems/Other	
Infrastructure	8-25
Equipment	25

Compensated Absences -

In accordance with contracts negotiated with the various employee groups of the individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All vested vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amount is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations -

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity -

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Estimates -

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information -

The General and Special Revenue Funds budgets shown in the financial statements were prepared on a basis consistent with accounting principles generally accepted in the United States of America and on the same modified accrual basis used to reflect actual results.

The Village Manager and Finance Committee prepare the proposed operating budgets for the year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.

Prior to December 31, the proposed budgets are presented to the Village Council. The Council holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through passage of a Village Council Resolution.

The approved budgets of the Village were adopted for the General and Special Revenue Funds at the function level. These are the enacted levels under the State of Michigan Uniform Budgeting and Accounting Act and the legally adopted levels of the budget. State statutes do not require legally adopted budgets for debt service or capital projects funds.

Budgets are maintained throughout the year at the account level, to provide additional control in preventing over-expenditures at the legally adopted levels. Amendments at the function level for the General and Special Revenue Funds must be approved by the Village Council.

The Village does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Budget amounts are reported as originally adopted and as final amended by the Village Council, during the year.

Michigan Public Act 621 of 1978 Section 18, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated at the legally enacted level.

During the year ended June 30, 2004, the Village (primary government) incurred expenditures in the General Fund, which were in excess of the amounts appropriated at the function level as follows:

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):

Excess of Expenditures Over Appropriations -

<u>Fund Type/Function/Activity</u>	<u>Amended Budget</u>	<u>Expended</u>	<u>Variance</u>
PRIMARY GOVERNMENT -			
General Fund -			
Public Safety	\$ 327,950	\$ 334,475	\$ 6,525

Unrestricted Net Assets Deficit -

The Water Fund had an unrestricted net assets deficit of \$297,561 at June 30, 2004.

NOTE 3 - DEPOSITS AND INVESTMENTS:

Authorized Deposits and Investments -

Act 217 PA 1982 as amended authorizes the Village to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, by section 21.145 and 21.146 of the Michigan Compiled Laws.

Act 20 PA 1994 as amended by Act 1997 PA 1999 authorizes the Village to invest surplus funds in bonds, securities and other direct obligations of the United States government or an agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution only if the bank, savings and loan association, or credit union is eligible to be a depository of funds belonging to the State; bankers' acceptance of United States banks; commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.118.

Deposits -

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

As of June 30, 2004, the carrying amount of the Village and the bank balance is as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>FDIC Coverage</u>	<u>Uninsured Uncollateralized</u>
Primary Government -				
Checking	\$ 146,718	\$ 172,278	\$ 100	\$ 172,178
Savings & Certificates of Deposit	934,444	934,442	170,778	763,664
Component Units - Checking	<u>136,338</u>	<u>136,338</u>	<u>100,000</u>	<u>36,338</u>
	<u>\$1,217,935</u>	<u>\$ 1,243,058</u>	<u>\$ 270,878</u>	<u>\$ 972,180</u>

Investments -

As of June 30, 2004, the Village has \$166,644 invested in Investment Trust Funds which are managed by a bank's trust department as investments of the primary government. The investment trust is a pooled fund of money from various Government units. The trust invests primarily in short-term maturity U.S. Government backed or guaranteed securities which are held by the trust in its name. These funds have not been considered to be susceptible to investment risk categories. The investment trusts have been reported in the financial statements as a cash equivalent because they have the general characteristics of demand deposit accounts in that the Village may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

Financial Statement Presentation -

The following is a summary of the financial statement presentation of Deposits and Investments at June 30, 2004.

	<u>Total</u>	<u>Financial Reporting</u>	
		<u>Cash & Cash Equivalents</u>	<u>Investments</u>
Deposits	\$ 1,217,500	\$ 1,198,700	\$ 18,800
Investments	<u>166,644</u>	<u>166,644</u>	<u>-</u>
	<u>\$ 1,384,144</u>	<u>\$ 1,365,344</u>	<u>\$ 18,800</u>

The caption cash and cash equivalents in the financial statements also includes \$435 in petty cash.

NOTE 4 - TAXES:

The Village property taxes are levied each July on the assessment valuation of the property in the Village as of the preceding December 31, as adjusted by the March and July Board of Review.

Assessed values are established annually by the respective Village/Township and are equalized by the State at an estimated percentage of the current market value. Real and personal property for the Village of Lexington for the fiscal year 2004 had a taxable value of \$40,706,224. The millage rates levied by the Village were 7.8947 for General Operating, 3.1578 for Municipal Streets, .6314 for Cemetery and .3568 for the Water Tower Debt.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 4 - TAXES - (cont'd):

The County of Sanilac has established a Tax Collection Revolving Fund whereby all local units of government are paid for the delinquent real property taxes each year.

NOTE 5 - RECEIVABLES:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 23,150	\$ 106,909
Intergovernmental	26,902	-
Special Assessments (delinquent)	<u>1,809</u>	<u>-</u>
	<u>\$ 51,861</u>	<u>\$ 106,909</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year there is no deferred revenue.

NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:

Interfund receivable and payable balances described as Due From and Due To Other Funds on the Balance Sheet reflect amounts due or owed to a particular fund by another fund of the Village. These amounts include only short-term obligations on open accounts, and not current portions of long-term loans. A summary of these balances by fund type at June 30, 2004, is as follows:

	<u>Due From</u>	<u>Due To</u>
Primary Government:		
Due To/From Other Funds -		
General Fund -		
Enterprise Funds -		
Water Fund	\$ 118,287	\$ -
Sewer Fund		
Special Revenue Funds -		
Major Street Fund -		
Water Fund	77,000	-
Local Street Fund	959	-
Local Street Fund		
Major Street Fund	-	959
Enterprise Funds -		
Mobile Home Park -		
Water Fund	6,000	-
Sewer Fund -		
Water Fund	160,556	-
Water Fund -		
General Fund	-	118,287
Major Street Fund	-	77,000
Mobile Home Park	-	6,000
Sewer Fund	<u>-</u>	<u>160,556</u>
Total Due To/From Other Funds	<u>\$ 362,802</u>	<u>\$ 362,802</u>

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – CAPITAL ASSETS:

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2004 was as follows:

	July 1, 2003 Balance	Additions	Deletions	June 30, 2004 Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 28,006	\$ -	\$ -	\$ 28,006
Total capital assets, not being depreciated	<u>28,006</u>	<u>-</u>	<u>-</u>	<u>28,006</u>
Capital assets, being depreciated:				
Buildings and improvements	346,026	-	-	346,026
Improvement other than buildings	82,757	31,291	-	114,048
Machinery and equipment	34,692	22,760	-	57,452
Vehicles	<u>369,555</u>	<u>72,860</u>	<u>-</u>	<u>442,415</u>
Total capital assets being depreciated	<u>833,030</u>	<u>126,911</u>	<u>-</u>	<u>959,941</u>
Less accumulated depreciation for:				
Buildings and improvements	231,533	6,481	-	238,014
Improvements other than buildings	24,676	4,842	-	29,518
Machinery and equipment	14,920	2,945	-	17,865
Vehicles	<u>234,965</u>	<u>33,192</u>	<u>-</u>	<u>268,157</u>
Total accumulated depreciation	<u>506,094</u>	<u>47,460</u>	<u>-</u>	<u>553,554</u>
Total capital assets being depreciated, net	<u>326,936</u>	<u>79,451</u>	<u>-</u>	<u>406,387</u>
Governmental activities capital assets, net	<u>\$ 354,942</u>	<u>\$ 79,451</u>	<u>\$ -</u>	<u>\$ 434,393</u>
Business Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 17,495	\$ -	\$ -	\$ 17,495
Construction in progress	<u>-</u>	<u>13,980</u>	<u>-</u>	<u>13,980</u>
	<u>17,495</u>	<u>13,980</u>	<u>-</u>	<u>31,475</u>
Capital assets, being depreciated:				
Buildings and improvements	44,889	5,000	-	49,889
Mobile Home Park	2,628,576	-	-	2,628,576
Utility Systems	9,419,651	396,894	-	9,816,545
Machinery and equipment	<u>132,806</u>	<u>17,591</u>	<u>-</u>	<u>150,397</u>
Total capital assets being depreciated	<u>12,225,922</u>	<u>419,485</u>	<u>-</u>	<u>12,645,407</u>
Less accumulated depreciation for:				
Buildings and improvements	10,368	2,829	-	13,197
Mobile Home Park	399,292	63,017	-	462,309
Utility Systems	1,746,795	245,934	-	1,992,729
Machinery and equipment	<u>78,610</u>	<u>15,479</u>	<u>-</u>	<u>94,089</u>
Total accumulated depreciation	<u>2,235,065</u>	<u>327,259</u>	<u>-</u>	<u>2,562,324</u>
Total capital assets being depreciated, net	<u>9,990,857</u>	<u>92,226</u>	<u>-</u>	<u>10,083,083</u>
Business activities capital assets, net	<u>\$10,008,352</u>	<u>\$ 106,206</u>	<u>\$ -</u>	<u>\$10,114,558</u>

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – CAPITAL ASSETS – (cont'd):

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 8,636
Public Safety	23,764
Public Works	11,532
Recreation and Cultural	<u>3,528</u>
Total depreciation expense-governmental activities	<u>\$ 47,460</u>
Business-type activities:	
Sewer	\$ 34,377
Water	225,344
Mobile Home Park	<u>67,538</u>
Total depreciation expense-business-type activities	<u>\$ 327,259</u>

NOTE 8 – LONG-TERM LIABILITIES:

PRIMARY GOVERNMENT -

The following is a summary of changes in the long-term liabilities (including current portions) of the Primary Government for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
<u>Governmental Activities:</u>					
Governmental Fund -					
General Obligation Bonds	\$ 819	\$ -	\$ 819	\$ -	\$ -
Installment purchase	62,000	-	9,000	53,000	9,000
Capital lease payable	149,600	-	5,600	144,000	6,400
Accrued sick and vacation	<u>34,443</u>	<u>128</u>	<u>-</u>	<u>34,571</u>	<u>-</u>
Total Governmental Funds	<u>246,862</u>	<u>128</u>	<u>15,419</u>	<u>231,571</u>	<u>15,400</u>
<u>Business-type Activities:</u>					
1984 SDS Revenue Bond	454,000	-	454,000	-	-
2002 Promissory Note	1,207,011	-	60,350	1,146,661	60,351
1993 A WSS Revenue Bonds	85,000	-	85,000	-	-
1993 B WSS Revenue Bonds	687,000	-	687,000	-	-
1994 General Obligation Unlimited Tax (Water Tower)	80,000	-	10,000	70,000	10,000
1996 General Obligation Unlimited Tax (Mobile Home Park)	765,000	-	50,000	715,000	50,000
1999 WSS Bonds/Contracts Payable	1,770,000	-	45,000	1,725,000	50,000
2003 Promissory Note	-	1,229,643	-	1,229,643	49,186
Note payable	56,409	-	10,000	46,409	11,000
Accrued sick and vacation	<u>37,010</u>	<u>-</u>	<u>8,028</u>	<u>28,982</u>	<u>-</u>
Total Business-Type Activities	<u>5,141,430</u>	<u>1,229,643</u>	<u>1,409,378</u>	<u>4,961,695</u>	<u>230,537</u>
	<u>\$ 5,388,292</u>	<u>\$ 1,229,771</u>	<u>\$ 1,424,797</u>	<u>\$ 5,193,266</u>	<u>\$ 245,937</u>

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – LONG-TERM LIABILITIES – (cont'd):

Significant details regarding outstanding long-term debt (including current portions) are presented as follows:

Installment Purchase:

The Village purchased a fire truck on February 1, 1998. Annual payments range from \$10,596 to \$12,309 with interest of 2.5 percent payable semi-annually

\$ 53,000

<u>Year</u>	<u>Governmental Activities</u>	
	<u>Installment Purchases</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 9,000	\$ 2,498
2006	11,000	1,983
2007	10,000	1,442
2008	11,000	901
2009	<u>12,000</u>	<u>309</u>
	<u>\$ 53,000</u>	<u>\$ 7,133</u>

Capital Lease Payable:

The Village entered into a long-term lease agreement with the Village of Lexington's building authority. See Note 9 for additional information

\$ 144,000

Accrued Vacation and Sick Pay:

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts. The dollar amount of these vested rights which have been accrued on the financial statements

\$ 34,571

1994 General Obligation Water System Unlimited Tax Bonds:

The \$130,000 1994 General Obligation Water System Unlimited Tax Bonds, dated March 1, 1994 were issued for construction of a new water storage tank. Annual principal payments range from \$10,000 to \$15,000 through October 1, 2009, with interest ranging from 5.85 to 6.15 percent payable semi-annually

\$ 70,000

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

1996 General Obligation Unlimited Tax Bonds:

The \$995,000 1996 General Obligation Unlimited Tax Bonds dated March 1, 1996 were issued for public improvements at the Village's campground and mobile home park. Annual principal payments range from \$50,000 to \$65,000 through October 1, 2015 with interest ranging from 4.60 to 5.35 percent payable semi-annually

\$ 715,000

Water Fund Contracts Payable -

Pursuant to provisions of Act 185, Public Acts of Michigan, 1957, as amended, the Village of Lexington and other applicable municipalities and the County of Sanilac have entered into contracts whereby the Village has agreed to pay the County annual installments to retire the Village's portion of a bond issue, plus interest. In order to pay such amounts to the County, the Village is obligated to the extent necessary, to levy ad valorem taxes without limitation as to the rate or amount on all taxable property. It is the intention of the Village Council to pay the Village's portion of the obligation from tax levies, debt retirement charges and operating revenue

The Village upgraded and made various improvements to its Water system. In order to finance the cost of the improvements the Sanilac County Department of Public Works has participated in the Drinking Water Revolving Fund through which the Department of Environmental Quality Bonds, dated September 30, 1999 have been sold in the amount of \$1,904,339. The Village makes the debt service payments directly to the State of Michigan.

\$ 1,725,000

Year	1994 General Obligation Bond		1996 General Obligation Bond		Drinking Water Revolving Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 10,000	\$ 3,933	\$ 50,000	\$ 35,262	\$ 50,000	\$ 42,500
2006	10,000	3,340	50,000	32,950	50,000	41,250
2007	10,000	2,742	55,000	30,495	50,000	40,000
2008	10,000	2,140	55,000	27,869	50,000	38,750
2009	15,000	1,380	60,000	25,036	55,000	37,438
2010-2014	15,000	461	315,000	77,420	285,000	166,313
2015-2019	-	-	130,000	6,956	320,000	128,375
2020-2024	-	-	-	-	365,000	85,688
2025-2029	-	-	-	-	410,000	37,250
2030-2034	-	-	-	-	90,000	1,125
	<u>\$ 70,000</u>	<u>\$ 13,996</u>	<u>\$ 715,000</u>	<u>\$ 235,988</u>	<u>\$1,725,000</u>	<u>\$618,689</u>

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

SDS and WSS Revenue Bonds Refinanced:

In August 2002 the Village of Lexington refinanced its 1996 SDS Revenue Bond of \$600,000 and its 1996 WSS Revenue Bond of \$586,000 for constructing additions and improvements to the mobile home park with a promissory note. The principal refinanced was \$1,207,011 at an interest rate of 5.30%, due semi-annually. Principal payments are due annually starting September 1, 2003 in the amount of \$60,350

\$ 1,146,661

SDS and WSS Revenue Bonds Refinanced -

In August 2003 the Village of Lexington refinanced its 1984 SDS Revenue Bond of \$540,000 1993 A WSS Revenue Bonds of \$95,000 and 1993 B WSS Revenue Bonds of \$755,000 for constructing and improvements to the sewer and water system with a promissory note. The principal refinanced was \$1,229,643 at an interest rate of 4.25%, due semi-annually. Principal payments are due annually starting September 1, 2004 in the amount of \$49,186

\$ 1,229,643

Water Fund Notes Payable -

The \$126,000 note payable dated July 16, 1993 was issued for water system improvements, annual principal payments range from \$10,000 to \$12,000 with interest of 5.70 percent payable semi-annually

\$ 46,409

The annual requirements to amortize long-term liabilities outstanding at June 30, 2004:

Year	2002 Promissory Note		2003 Promissory Note		Note Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 60,351	\$ 59,174	\$ 49,186	\$ 51,935	\$ 11,000	\$ 2,677
2006	60,350	55,975	49,186	49,815	12,000	2,042
2007	60,351	52,777	49,186	47,696	12,000	1,350
2008	60,350	49,578	49,186	45,698	11,409	650
2009	60,351	46,379	49,186	43,457	-	-
2010-2014	301,753	183,918	245,929	185,592	-	-
2015-2019	301,753	103,954	245,929	132,583	-	-
2020-2024	241,402	25,589	245,928	79,603	-	-
2025-2029	-	-	245,928	26,543	-	-
	<u>\$ 46,409</u>	<u>\$ 6,719</u>	<u>\$1,146,661</u>	<u>\$ 577,344</u>	<u>\$1,229,644</u>	<u>\$662,922</u>

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

Following is a summary of the Government-Wide Statement of Net Assets and Government-Wide Statement of Activities of the Village of Lexington Building Authority as of and for the fiscal year ended June 30, 2004:

Assets	<u>\$ 266,234</u>
Liabilities	\$ 180,000
Net Assets	<u>86,234</u>
	<u>\$ 266,234</u>
Revenues and transfers	\$ 43,787
Expenditures and transfers	<u>36,935</u>
Excess of revenues over (under) expenditures	<u>\$ 6,852</u>

NOTE 9 - BUILDING AUTHORITY LEASE PAYABLE:

The Village entered into a lease agreement with the Village of Lexington Building Authority to help finance the payment of debt and maintenance on the building. Upon retirement of the debt, title of the building will transfer to both the Village and the Township of Lexington as tenants in common reflecting an 80%, 20% interest, respectively. In accordance with FASB Statement 13 the building (80%) is recorded in the financial statements of the Village.

Future minimum lease payments of the Village's portion of the debt owed on the building are as follows:

Year Ended <u>June 30.</u>	
2005	\$ 13,600
2006	13,280
2007	12,960
2008	13,440
2009	13,080
2010-2020	<u>145,960</u>
	212,320
Less - interest	<u>(68,320)</u>
Long-Term Lease Payable	<u>\$ 144,000</u>

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - EMPLOYEE PENSION PLAN:

Plan Description -

The Village of Lexington participates in the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The plan adopted by the Village Council requires a 5% member contributions. The Village is required to contribute at an actuarially determined rate, which is 7.54%, the weighted average rate for fiscal 2004 was 4.84%. The contribution requirements of plan members and the Village are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

Annual Pension Costs -

For fiscal 2004, the Village's annual pension cost of \$31,944 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2000 and 2001 actuarial valuations using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation (c) additional projected salary increases ranging from 0.0% to 8.66% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% annually for employees under benefit B-4. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earns the expected rate of return (8%) and includes as adjustment to reflect market value. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years for positive unfunded liabilities and 10 years for negative unfunded liabilities, with these periods reestablished with each actuarial valuation.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - EMPLOYEE PENSION PLAN – (cont'd):

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Costs (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
June 30, 2002	\$ 43,637	100 %	\$ -
June 30, 2003	34,423	100	-
June 30, 2004	31,944	100	-

Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL) Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>(Overfunded)</u> <u>Accrued Liability</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>AAL</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a %</u> <u>of Covered Payroll</u> <u>((b-a)/c)</u>
2001	\$ 496,044	\$ 793,874	\$ 297,830	62 %	\$ 430,578	69 %
2002	546,827	873,390	326,563	63	436,898	75
2003	643,499	1,006,698	363,199	64	495,791	73

NOTE 11 - POST RETIREMENT BENEFITS:

In addition to the pension benefits described in Note 11, the Village of Lexington provides post-retirement health care to all employees who retire from the Village on or after attaining age 55 with at least 25 years of continuous service. Expenditures for post-retirement health care benefits are recognized on a pay-as-you-go basis. For the fiscal year ended June 30, 2004 these costs amounted to approximately \$22,934 with two eligible participants.

NOTE 12 - RESERVED FUND BALANCE:

Fund Balance has been reserved in various governmental funds to indicate the portion of Fund Balance not available but reserved for a specific purpose. The following is a summary of Reserved Fund Balance for all Village funds at June 30, 2004:

<u>Fund Type/Fund</u>	<u>Description</u>	<u>Amount</u>
Primary Government -		
General Fund	Prepaid Expenditures	\$ 37,842
	Skate Board Park Donations	7,951
	Fire Department Donations	201
	Fire Department Pool Filling	568
	Metro Authority	3,845
		<u>50,407</u>
Other Governmental Funds	Prepaid Expenditures	<u>1,039</u>
		<u>\$ 51,446</u>

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS

NOTE 13 – RESTRICTED NET ASSETS:

Primary Government –

Governmental Activities	Skate Board Park Donations	\$ 7,951
	Fire Department Donations	201
	Fire Department Pool Filling	568
	Metro Authority	<u>3,845</u>
		<u>12,565</u>
Business-Type Activities -	Tower Antenna Lease	12,000
	Internet Lease	250
	Meter Deposits	<u>12,944</u>
		<u>25,194</u>

\$ 37,759

NOTE 14 – RESTATEMENTS:

As of and for the year ended June 30, 2004, the Village implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 33 – *Accounting and Financial Reporting for Nonexchange Transactions*
- No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*
- No. 36 – *Recipient Reporting for Certain Shared Nonexchange Revenues – An Amendment of GASB No. 33*
- No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

Interpretation

- No. 6 *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The Village is required to implement the new requirements no later than the year ending June 30, 2004.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS

NOTE 14 – RESTATEMENTS – (cont'd):

The more significant of the changes required by the new standards include:

- Management's discussion and analysis;
- Basic financial statements that include:
- Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
- Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
- Schedules to reconcile the fund financial statements to the government-wide financial statements;
- Notes to financial statements;
- Required supplementary information, including certain budgetary schedules.

As a result of implementing these pronouncements for the fiscal year ended June 30, 2004, the following restatements were made to net assets at June 30, 2003:

Government-wide financial statements. Beginning net assets for governmental activities were determined as follows:

Fund balances of general and special revenue funds as of 6/30/03	\$ 970,524
Add: capital assets	861,036
Less: accumulated depreciation on capital assets	(506,094)
Less: notes payable	(212,419)
Less: accrued interest on bond/notes payable	(1,322)
Less: accrued compensated absences	(34,443)
Net Assets at 6/30/03	<u>\$ 1,077,282</u>

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF LEXINGTON, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Property taxes	\$ 295,959	\$ 295,959	\$ 299,399	\$ 3,440
Intergovernmental -				
State	101,000	101,000	90,703	(10,297)
Charges for services	190,589	190,589	164,221	(26,368)
Fines and forfeits	-	-	1,989	1,989
Interest and rents	-	-	2,539	2,539
Other	111,669	111,669	111,264	(405)
Total Revenues	<u>699,217</u>	<u>699,217</u>	<u>670,115</u>	<u>(29,102)</u>
Expenditures:				
Current -				
General Government	110,441	113,441	110,512	2,929
Public Safety	310,950	327,950	334,475	(6,525)
Public Works	(10,192)	(5,192)	27,650	(32,842)
Recreation and Culture	9,190	9,190	9,159	31
Other	252,864	254,214	132,068	122,146
Debt Service				
Principal	15,419	15,419	15,419	-
Interest	10,545	10,545	10,545	-
Total Expenditures	<u>699,217</u>	<u>725,567</u>	<u>639,828</u>	<u>85,739</u>
Excess of revenues over (under) expenditures	-	(26,350)	30,287	56,637
Other Financing Sources (Uses):				
Transfers from component unit	<u>-</u>	<u>-</u>	<u>1,950</u>	<u>1,950</u>
Excess of revenues and other sources over (under) expenditures	-	(26,350)	32,237	58,587
Fund Balance at beginning of year	<u>206,578</u>	<u>206,578</u>	<u>206,578</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 206,578</u>	<u>\$ 180,228</u>	<u>\$ 238,815</u>	<u>\$ 58,587</u>

VILLAGE OF LEXINGTON, MICHIGAN
DETAILED SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Property taxes	\$ 295,959	\$ 295,959	\$ 299,399	\$ 3,440
Intergovernmental -				
State	101,000	101,000	90,703	(10,297)
Charges for services	190,589	195,589	164,221	(31,368)
Fines and forfeits	-	-	1,989	1,989
Interest and rents	-	-	2,539	2,539
Other	111,669	111,669	111,264	(405)
	<u>699,217</u>	<u>704,217</u>	<u>670,115</u>	<u>(34,102)</u>
Expenditures:				
General Government -				
Village council	13,744	13,744	13,884	(140)
Village manager	79,784	82,784	83,140	(356)
Village clerk	33,383	33,383	32,158	1,225
Administrative services	142,171	142,171	139,971	2,200
	<u>269,082</u>	<u>272,082</u>	<u>269,153</u>	<u>2,929</u>
Less: Reimbursement from other funds	<u>(158,641)</u>	<u>(158,641)</u>	<u>(158,641)</u>	<u>-</u>
Total General Government	<u>110,441</u>	<u>113,441</u>	<u>110,512</u>	<u>2,929</u>
Public Safety -				
Fire department	98,624	115,624	114,147	1,477
Police department	212,326	212,326	220,328	(8,002)
	<u>310,950</u>	<u>327,950</u>	<u>334,475</u>	<u>(6,525)</u>
Public Works -				
Department of public works	205,229	205,229	197,792	7,437
Less: Reimbursement from other funds	<u>(215,421)</u>	<u>(210,421)</u>	<u>(170,142)</u>	<u>(40,279)</u>
Total Public Works	<u>(10,192)</u>	<u>(5,192)</u>	<u>27,650</u>	<u>(32,842)</u>

Continued

VILLAGE OF LEXINGTON, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Recreational and Cultural- Parks and recreation	\$ 9,190	\$ 9,190	\$ 9,159	\$ 31
Other - Municipal programs	252,864	254,214	132,068	122,146
Debt Service - Principle	15,419	15,419	15,419	-
Interest	10,545	10,545	10,545	-
	25,964	25,964	25,964	-
Total Expenditures	699,217	725,567	639,828	85,739
Excess of revenues over (under) expenditures	-	(21,350)	30,287	51,637
Other Financing Sources: Transfers from component unit	-	-	1,950	1,950
Excess of revenues and other sources over (under) expenditures	-	(21,350)	32,237	53,587
Fund Balance at beginning of year	206,578	206,578	206,578	-
Fund Balance at end of year	\$ 206,578	\$ 185,228	\$ 238,815	\$ 53,587

Concluded

SUPPLEMENTARY INFORMATION

VILLAGE OF LEXINGTON, MICHIGAN

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS JUNE 30, 2004

	Special Revenue Funds		
	Major Street	Local Street	Municipal Street
ASSETS			
Cash and cash equivalents	\$ 170,234	\$ 116,122	\$ 109,464
Investments	-	-	-
Receivables -			
Accounts	-	50	-
Special Assessments	-	1,809	-
Due from other funds	77,959	-	-
Due from other governmental units -			
State	6,309	6,067	-
Prepaid expenditures and deposits	-	-	655
Total Assets	<u>\$ 254,502</u>	<u>\$ 124,048</u>	<u>\$ 110,119</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 1,400	\$ 3,935	\$ -
Accrued liabilities	-	-	-
Due to other funds	-	959	-
Total Liabilities	<u>1,400</u>	<u>4,894</u>	<u>-</u>
Fund Balance:			
Reserved -			
Prepays	-	-	655
Unreserved -			
Undesignated	253,102	119,154	109,464
Total Fund Balance	<u>253,102</u>	<u>119,154</u>	<u>110,119</u>
Total Liabilities and Fund Balance	<u>\$ 254,502</u>	<u>\$ 124,048</u>	<u>\$ 110,119</u>

Special Revenue Funds

<u>County Road</u>	<u>Cemetery</u>	<u>Capital Equipment</u>	<u>Library</u>	<u>Total</u>
\$ 271,262	\$ 46,839	\$ 17,917	\$ 52,113	\$ 783,951
-	41,843	-	-	41,843
-	25	-	-	75
-	-	-	-	1,809
-	-	-	-	77,959
-	-	-	-	12,376
-	384	-	-	1,039
<u>\$ 271,262</u>	<u>\$ 89,091</u>	<u>\$ 17,917</u>	<u>\$ 52,113</u>	<u>\$ 919,052</u>
\$ -	\$ 368	\$ -	\$ -	\$ 5,703
-	370	-	1,857	2,227
-	-	-	-	959
-	738	-	1,857	8,889
-	384	-	-	1,039
271,262	87,969	17,917	50,256	909,124
<u>271,262</u>	<u>88,353</u>	<u>17,917</u>	<u>50,256</u>	<u>910,163</u>
<u>\$ 271,262</u>	<u>\$ 89,091</u>	<u>\$ 17,917</u>	<u>\$ 52,113</u>	<u>\$ 919,052</u>

VILLAGE OF LEXINGTON, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Special Revenue Funds</u>		
	<u>Major Street</u>	<u>Local Street</u>	<u>Municipal Street</u>
Revenues:			
Taxes	\$ -	\$ -	\$ 117,657
Intergovernmental -			
State	49,541	23,323	-
Charges for services	-	1,230	-
Fines and fees	-	-	-
Interest	1,934	1,423	1,236
Other	-	1,262	-
	<u>51,475</u>	<u>27,238</u>	<u>118,893</u>
Expenditures:			
Current -			
General Government	-	-	-
Public Safety	-	-	-
Public Works	36,237	47,298	8,774
Recreation and Cultural	-	-	-
	<u>36,237</u>	<u>47,298</u>	<u>8,774</u>
Excess of revenues over (under) expenditures	<u>15,238</u>	<u>(20,060)</u>	<u>110,119</u>
Other Financing Sources (Uses):			
Transfers in	-	12,385	-
Transfers out	(12,385)	-	-
Total Other Financing Sources (Uses)	<u>(12,385)</u>	<u>12,385</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	2,853	(7,675)	110,119
Fund Balances at beginning of year	<u>250,249</u>	<u>126,829</u>	<u>-</u>
Fund Balances at end of year	<u>\$ 253,102</u>	<u>\$ 119,154</u>	<u>\$ 110,119</u>

Special Revenue Funds

County Road	Cemetery	Capital Equipment	Library	Total
\$ 72,648	\$ 23,522	\$ -	\$ 29,865	\$ 243,692
-	-	-	4,053	76,917
-	15,925	-	1,187	18,342
-	-	-	21,586	21,586
2,721	1,162	33	581	9,090
-	-	-	2,829	4,091
<u>75,369</u>	<u>40,609</u>	<u>33</u>	<u>60,101</u>	<u>373,718</u>
-	44,231	-	-	44,231
-	-	35,745	-	35,745
57,730	-	47,043	-	197,082
-	-	-	51,115	51,115
<u>57,730</u>	<u>44,231</u>	<u>82,788</u>	<u>51,115</u>	<u>328,173</u>
17,639	(3,622)	(82,755)	8,986	45,545
-	-	100,672	-	113,057
-	-	-	-	(12,385)
<u>-</u>	<u>-</u>	<u>100,672</u>	<u>-</u>	<u>100,672</u>
17,639	(3,622)	17,917	8,986	146,217
<u>253,623</u>	<u>91,975</u>	<u>-</u>	<u>41,270</u>	<u>763,946</u>
<u>\$ 271,262</u>	<u>\$ 88,353</u>	<u>\$ 17,917</u>	<u>\$ 50,256</u>	<u>\$ 910,163</u>

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
MAJOR STREET			
Revenues:			
Intergovernmental -			
State	\$ 30,526	\$ 49,541	\$ 19,015
Interest	<u>2,000</u>	<u>1,934</u>	<u>(66)</u>
Total Revenues	<u>32,526</u>	<u>51,475</u>	<u>18,949</u>
Expenditures:			
Public Works -			
Salaries	9,815	9,815	-
Administrative fees	2,439	2,439	-
Supplies	6,250	2,101	4,149
Equipment rental	12,675	6,560	6,115
Repairs and maintenance	-	472	(472)
Traffic - street lights	12,639	10,288	2,351
Contracted services	10,500	4,517	5,983
Insurance	60	45	15
Other	-	-	-
Total Expenditures	<u>54,378</u>	<u>36,237</u>	<u>18,141</u>
Excess of revenues over (under) expenditures	(21,852)	15,238	37,090
Other Financing Uses:			
Transfers out	<u>(12,385)</u>	<u>(12,385)</u>	<u>-</u>
Net change in fund balance	(34,237)	2,853	37,090
Fund Balance at beginning of year	<u>250,249</u>	<u>250,249</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 216,012</u>	<u>\$ 253,102</u>	<u>\$ 37,090</u>

Continued

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Amended Budget	Actual	Variance Positive (Negative)
LOCAL STREET			
Revenues:			
Intergovernmental -			
State	\$ 29,015	\$ 23,323	\$ (5,692)
Interest	4,000	1,423	(2,577)
Charges for services	-	1,230	1,230
Other	-	1,262	1,262
	<u>33,015</u>	<u>27,238</u>	<u>(5,777)</u>
Expenditures:			
Public Works -			
Salaries	25,000	20,502	4,498
Administrative fees	2,476	2,476	-
Supplies	12,500	1,673	10,827
Equipment rental	16,398	14,381	2,017
Repairs and maintenance	-	177	(177)
Traffic - street lights	4,476	-	4,476
Tree trimming	5,500	5,025	475
Contracted services	3,500	3,028	472
Insurance	48	36	12
	<u>69,898</u>	<u>47,298</u>	<u>22,600</u>
Excess of revenues under expenditures	(36,883)	(20,060)	16,823
Other Financing Sources:			
Transfers in	-	12,385	12,385
Net change in Fund Balance	(36,883)	(7,675)	29,208
Fund Balance at beginning of year	126,829	126,829	-
Fund Balance at end of year	<u>\$ 89,946</u>	<u>\$ 119,154</u>	<u>\$ 29,208</u>

Continued

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED JUNE 30, 2004

	Amended Budget	Actual	Variance Positive (Negative)
MUNICIPAL STREETS			
Revenues:			
Taxes	\$ 116,420	\$ 117,657	\$ 1,237
Interest	570	1,236	666
	<u>116,990</u>	<u>118,893</u>	<u>1,903</u>
Expenditures:			
Public Works -			
Administrative fees	8,774	8,774	-
Excess of revenues over expenditures	108,216	110,119	1,903
Fund Balance at beginning of year	-	-	-
Fund Balance at end of year	<u>\$ 108,216</u>	<u>\$ 110,119</u>	<u>\$ 1,903</u>

COUNTY ROAD

Revenues:			
County road millage	\$ 69,000	\$ 72,648	\$ 3,648
Interest	2,500	2,721	221
Total Revenues	<u>71,500</u>	<u>75,369</u>	<u>3,869</u>
Expenditures:			
Public Works -			
Salaries	10,000	9,815	185
Administrative fees	5,362	5,362	-
Supplies	6,250	806	5,444
Equipment rental	24,875	6,560	18,315
Utilities	1,000	739	261
Traffic - street lights	9,500	7,768	1,732
Contracted services	10,000	2,872	7,128
Insurance	48	36	12
Capital outlay	25,000	23,772	1,228
	<u>92,035</u>	<u>57,730</u>	<u>34,305</u>
Excess of revenues over (under) expenditures	(20,535)	17,639	38,174
Fund Balance at beginning of year	<u>253,623</u>	<u>253,623</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 233,088</u>	<u>\$ 271,262</u>	<u>\$ 38,174</u>

Continued

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Amended Budget	Actual	Variance Positive (Negative)
CEMETERY			
Revenues:			
Taxes	\$ 23,278	\$ 23,522	\$ 244
Charges for services -			
Sale of lots and footing fees	4,500	9,450	4,950
Internment fees	3,200	6,475	3,275
Interest and dividends	2,000	1,162	(838)
Total Revenues	<u>32,978</u>	<u>40,609</u>	<u>7,631</u>
Expenditures:			
General Government -			
Salaries	4,000	16,194	(12,194)
Fringe benefits	525	496	29
Administrative fees	2,473	2,473	-
Supplies	1,250	603	647
Equipment rental	6,185	9,788	(3,603)
Contracted services	8,460	10,081	(1,621)
Insurance	153	144	9
Utilities	869	1,115	(246)
Equipment	1,250	3,215	(1,965)
Miscellaneous	3,500	122	3,378
	<u>28,665</u>	<u>44,231</u>	<u>(15,566)</u>
Excess of revenues over (under) expenditures	4,313	(3,622)	(7,935)
Fund Balance at beginning of year	<u>91,975</u>	<u>91,975</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 96,288</u>	<u>\$ 88,353</u>	<u>\$ (7,935)</u>

Continued

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Amended Budget	Actual	Variance Positive (Negative)
CAPITAL EQUIPMENT			
Revenues:			
Interest	\$ -	\$ 33	\$ 33
Expenditures:			
Public Safety - Capital outlay	44,000	35,745	8,255
Public Works - Capital outlay	74,600	47,043	27,557
Total Expenditures	118,600	82,788	35,812
Excess of revenues under expenditures	(118,600)	(82,755)	35,845
Other Financing Sources:			
Transfers In	125,000	100,672	(24,328)
Excess of revenues and other sources over expenditures	6,400	17,917	11,517
Fund Balance at beginning of year	-	-	-
Fund Balance at end of year	\$ 6,400	\$ 17,917	\$ 11,517

Continued

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	Amended Budget	Actual	Variance Positive (Negative)
LIBRARY			
Revenues:			
Taxes	\$ 29,865	\$ 29,865	\$ -
Intergovernmental -			
State	4,053	4,053	-
Fines and fees	21,601	21,586	(15)
Book sales	1,220	1,187	(33)
Interest	520	581	61
Other	2,537	2,829	292
Total Revenues	<u>59,796</u>	<u>60,101</u>	<u>305</u>
Expenditures:			
Recreation and Cultural -	29,100	26,314	2,786
Salaries and fringes	1,500	1,500	-
Professional fees	1,120	1,061	59
Supplies	6,544	6,411	133
Books and periodicals	830	777	53
Building maintenance	4,140	4,088	52
Utilities	2,442	2,441	1
Membership dues	440	415	25
Mileage	428	387	41
Workshops	310	300	10
Contracted services	1,821	1,867	(46)
Insurance	4,873	-	4,873
Contingency	6,248	5,554	694
Miscellaneous	<u>59,796</u>	<u>51,115</u>	<u>8,681</u>
Excess of revenues over expenditures	-	8,986	8,986
Fund Balance at beginning of year	<u>41,270</u>	<u>41,270</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 41,270</u>	<u>\$ 50,256</u>	<u>\$ 8,986</u>

Concluded

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the President and Members
of the Village Council
Village of Lexington, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lexington, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Village's basic financial statements and have issued our report dated July 30, 2004. We did not audit the financial statements of the Library Fund, which represents 5.7% of the assets and 16.1% of the revenues of the nonmajor governmental funds and 3.1% of the assets and 5.2% of the revenues of the governmental activities. These financial statements were audited by other auditors whose report was furnished to us, and our opinion insofar as it relates the amounts included for the Library Fund, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Lexington, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financing Reporting

In planning and performing our audit, we considered the Village of Lexington, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Village of Lexington, Michigan in a separate letter dated July 30, 2004.

This report is intended solely for the information and use of the management and the Council of the Village of Lexington, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Stewart, Beauvais + Whipple

Certified Public Accountants

July 30, 2004

To the President and Members
of the Village Council
Village of Lexington
Lexington, Michigan

We have recently completed our audit of the records of the Village of Lexington, Michigan, for the year ended June 30, 2004. In connection with the examination, we believe that certain changes in your accounting procedures would be helpful in improving management's control and/or the operational efficiency of the recordkeeping system. These suggestions are a result of our evaluation of internal accounting controls and procedures, and our discussions with management. As noted in our *Report on the Internal Control Structure*, these were not considered to be material control weaknesses, but areas we would like to bring to your attention.

Controls over Mobile Home Park Receipts.

At the present time Mobil Home Park receipts are deposited with the Village by the Mobile Home Park manager. This helps control receipting of Mobile Home Park revenues, however it was difficult to determine if all receipts were deposited. It was difficult because the general ledger receivable and prepaid rent accounts did not agree to the Mobile Home Park subsidiary ledger.

A subsidiary ledger (control spreadsheet) is maintained by the Mobile Home Park manager, however it currently is not being reconciled to the Village general ledger.

Without the reconciliation it was difficult for us to test what the rent receivable and prepaid rent balance should be at June 30, 2004.

To increase controls over the Mobile Home Park receipts, we recommend that the general ledger be reconciled to the subsidiary ledger (control spreadsheet) monthly.

We also recommend that the subsidiary ledger (control spreadsheet) be modified to show the amount due along with amounts paid and date paid to make the reconciliation more efficient.

Controls over Water Usage Revenue.

During the audit, we noted that there was a large discrepancy between the amount of gallons of water processed and metered out of the water plant compared to the gallons of water sold.

The discrepancy was a loss of approximate \$6,700,000 gallons or 9.6 percent. We believe this loss is in excess of what should be considered normal especially since at the time of the audit a complete explanation for the difference could not be explained.

We recommend that a thorough study be made immediately to determine what the loss represents. For examples is there a large leak, gallons being used but not paid for or bad meter readings, etc.

Controls over Water Billing.

At the present time there are two weaknesses in controls over water billing. The first one is that the same person programs the water meter readers that records the results, prepares the bills and posts to the subsidiary ledger. The second is that the software for billing allows for amounts to be changed on the subsidiary ledger without going through the general ledger.

We recommend that the Village review the entire utility billing process, implement practical additional procedures to help increase internal control.

We also recommend that a policy be made stating that all adjustments to the subsidiary ledger must be posted by journal entry to the general ledger.

Controls over Journal Entries.

At the present time, journal entries include a description for the entry and are numbered and maintained in a binder for control purposes. However, not all journal entries are required to be approved by a second individual.

Not having a procedure requiring that all journal entries be approved allows for the possibility for inaccurate reporting.

To increase controls, we recommend that all journal entries be approved by an individual that is able to analyze the accompanying information supporting the entry.

Controls over capitalization of assets.

At the present time the Village does not have a formal capitalization policy that provides specific requirements for the capitalization of assets.

A formal capitalization policy would establish the type of assets to be capitalized, the dollar threshold for capitalization and, the estimated lives and depreciation methods assigned to each asset or group of assets.

With the implementation of the GASB 34 reporting requirements and the recording of capital assets. We recommend that the Village adopt a formal capitalization policy.

Controls over Electronic Transfers.

With the expansion of modern technology and the availability for money to be moved without the use of a check, the Village should expand internal controls to include electronic transfers.

We recommend that a policy be instituted that establishes who may make transfers, a dollar limit, a destination limit (type of expenditure) and approval requirement, etc.

These conditions were considered in determining the nature, timing and extent of the audit tests applied in our audit of the June 30, 2004 financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended for the information of the management and members of the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss any or all of these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

Stewart, Beaumont & Whipple

August 6, 2003